Reading questions for “Optimal Versus Naive Diversification: How Inefficient is the 1/N Portfolio Strategy?”, by DeMiguel, Garlappi, and Uppal.

1. The paper points to an issue that is notorious for causing problems when estimating the Markowitz model. What is the issue or issues?

2. What is the objective of the paper?

3. What is the 1/N strategy?

4. What is an out of sample test?

5. When do we expect optimizing strategies to outperform the 1/N strategy?

6. What do the authors mean by constrained optimization when estimating optimal portfolio weights, and how might this lead to better estimates? Aside from estimation benefits, why might constraints also be practical?